Homeowner
Protection Office

Annual Report 2004-2005

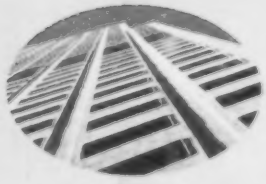

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Table of Contents

2 Message from the Chairperson to the Minister

4 Organization Overview

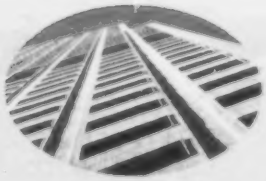
5 Corporate Governance

6 Report on Performance
- 6 Business Areas and Outputs
- 13 Performance Measures, Targets and Results

26 Alignment with Provincial Government Priorities and Government Direction Provided

27 Glossary of Terms

Financial Report March 31, 2005



Message from the Chairperson to the Minister

Ken MacLeod, Chairperson

Honourable Murray Coell
Ministry of Community, Aboriginal and Women's Services
Minister Responsible for Housing
Province of British Columbia

Minister,

It is a pleasure to present to you the 2004/05 Annual Report for the Homeowner Protection Office (HPO).

The HPO's net operating results remain positive with a net income of $4.0 million. Revenues increased by 2.5% as a result of continued strengthening in the housing market. Expenditures increased by 5.9 % primarily as a result of three factors.

First, Reconstruction Loan amounts approved were higher as a result of considerable increases in the cost of labour and materials. The HPO, without federal participation, continues to provide financial assistance to eligible owners. To date, since the HPO's inception, no one has had to lose their home as a result of necessary building envelope repairs. Second, more owners have completed their building envelope renovations and are applying for the PST Relief Grant. Third, the HPO's research and education program is enhancing service to consumers as well as the residential construction industry.

Homebuyers have exhibited a considerable increase in consumer confidence. New home construction remained strong with 37,193 new homes registered with the HPO in 2004/05, an increase from the previous year of 33,191. Given the continuing low interest rates and the considerable demand for housing, the HPO has remained active in providing valuable information to assist homebuyers with their purchasing decisions.

As part of the Province's Core Services Review process, the new Homeowner Protection Office Board of Directors was instructed to develop its recommendations for the future of the *Homeowner Protection Act* and the HPO. The Futures Report, which articulated the Board's recommendations, was submitted to you in September 2004.

In this report, the HPO Board indicated its belief that continuing the HPO as a Crown corporation provides the capability to respond most quickly and effectively to the needs of the industry and consumers. The Crown corporation model allows the groups most directly affected by the *Homeowner Protection Act* (consumers, builders and developers) more direct access to the government than could be achieved through alternate organizational structures.

The Futures Report identified five key strategic thrusts which build on the existing goals of the *Homeowner Protection Act*. These thrusts are:

1. Professionalization of the industry
2. Informed and protected consumers
3. Viability of the warranty structure
4. A strategic centre for building industry research, and
5. An aligned, focused and capable organization.

Message from the Chairperson to the Minister

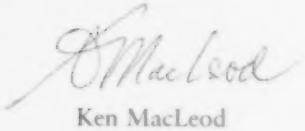
This annual report presents our performance measures and results based on the foregoing strategic direction in which you provided your approval and further direction in February 2005. New performance measures have been added to permit an assessment of our progress on the new strategic directions.

We look forward to working with industry representatives, consumers and government in our pursuit of the *Homeowner Protection Act*'s goals which will simultaneously better protect consumers and encourage a robust residential construction industry.

Accountability Statement

The 2004/2005 Homeowner Protection Office Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The Board is accountable for the contents of this report, including the selection of performance measures and how the results have been reported. The information presented reflects the performance of the HPO for the twelve months ended March 31, 2005. All significant decisions, events and identified risks as of the annual report date have been considered in preparing the report. The information is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation in our 2004-2007 Service Plan.

Sincerely,



Ken MacLeod
Chairperson

Organization Overview

Homeowner Protection Office

Who We Are

The Homeowner Protection Office (HPO) is the provincial Crown corporation established in 1998 under the authority of the *Homeowner Protection Act (Act)*. The mandate of the *Act* is to strengthen consumer protection for new home buyers and help bring about improvements to the quality of residential construction in British Columbia.

What We Do

The HPO, currently with 34 FTEs (full-time equivalents), is responsible for:

- administering the residential builder and building envelope renovator licensing system province-wide
- monitoring the performance of the third-party home warranty insurance system offered by the private sector
- conducting research and education which benefits the residential construction industry and consumers, and
- administering and delivering financial assistance for owners of leaky homes in the form of the Reconstruction Loan Program and the Province's PST Relief Grant Program.

Where We Are

The HPO is located in downtown Vancouver and has field staff responsible for viewing construction sites across the province to ensure compliance with the *Act* and regulations.

Who We Serve

The HPO serves homebuyers, homeowners (particularly owners of leaky homes), residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with warranty providers, industry and related consumer associations, governments including local governments and Canada Mortgage and Housing Corporation, educational institutions, research organizations, architects, engineers, financial institutions, property managers, the legal profession, building inspectors and real estate professionals.

The HPO works closely with organizations such as the Canadian Home Builders' Association of B.C. to bring about improvements in the residential construction industry.

Our Strategic Foundation

In 2004 the HPO Board of Directors revised and updated the HPO's strategic foundation as part of the Futures Report recommendations (see the Message from the Chairperson to the Minister on page 2). The new strategic foundation remains in keeping with the mandate of the *Homeowner Protection Act*.

Our Vision — A professional organization that directly acts to enable a robust and respected, residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

The vision stated in the 2004-2007 Service Plan was: a responsive Crown corporation leading an improvement in the quality of residential construction and increased homebuyer protection in British Columbia.

Our Mission — To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

The mission stated in the 2004-2007 Service Plan was: to develop and help maintain confidence in British Columbia's residential construction by: administering and continuously improving the residential builder licensing system, monitoring the mandatory, third-party home warranty insurance system, maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, as well as providing financial assistance to qualified owners of leaky homes.

Our Values — We are guided by our commitment to: fairness, competence, common ground, and usefulness.

The values stated in the 2004-2007 Service Plan were: integrity, fairness, responsiveness, accountability and teamwork.

Corporate Governance

Minister of Community, Aboriginal and Women's Services
Honourable Murray Coell

Board of Directors[1]

Ken MacLeod
Chair, retired former Deputy Minister responsible at various times for housing, municipal affairs, culture and recreation

Maureen Enser[2]
Executive Director of the Urban Development Institute

Eric Gerrits
Past president of the Canadian Home Builders' Association of B.C. and President of Homescape Building and Design Inc.

Antonio Gioventu[2]
Executive Director of the Condominium Home Owners' Association

Don Goedbloed[2]
Senior Vice-President of Stuart Olson Construction Ltd.

Joe Redmond
Vice-president of UBC Properties Trust

Peter Schultze
Past president of the Canadian Home Builders' Association of B.C. and President of Peter Schultze Construction Ltd.

Chief Executive Officer / Registrar
Ken Cameron

Chief Operating Officer
Bob Maling

Provincial Advisory Council[3]

Research and Education	Licensing	Loans	Finance & Administration	Communications
John Bell, Manager, Research and Education	Tom Reeves, Deputy Registrar	Sharon Turk, Manager, Loans	Linda McKay, Manager, Finance and Administration	Jan Calkins, Manager, Communications

Department Responsibilities

Research and Education	Licensing	Loans	Finance and Administration	Communications
Building science research	Licensing of residential builders and building envelope renovators	Delivery of the Reconstruction Loan Program	Financial reporting	Issues management, communications planning and media relations
Consumer/industry education and training	Maintenance of registry of licensed builders and building envelope renovators	Administration of the PST Relief Grant Program	Human resources	Development and implementation of strategies for consumer and industry communications
Dissemination of research results and support of establishing "best practices"	Administration of the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction	Participation at on-site strata meetings to provide information on financial assistance programs	Information systems	Management of information line, website, events and publications
Provision of input and advice on amendments to the building code	Collection of license fees		Administration of the Office	Support for HPO's education mandate
			Budgetary planning and expenditure control	

[1] The Board is appointed by the Lieutenant Governor in Council and is responsible for the governance of the HPO.

[2] Member of the Audit and Finance Committee which assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.

[3] The Provincial Advisory Council on Homeowner Protection provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The council includes representatives from the following organizations:

- Architectural Institute of B.C.
- B.C. Construction Association
- Union of British Columbia Municipalities
- Canadian Home Builders' Association of B.C.
- Association of Professional Engineers and Geoscientists
- Condominium Home Owners' Association
- Co-operative Housing Federation of B.C.
- City of Vancouver
- Home warranty insurance provider
- Urban Development Institute
- Building Officials Association of B.C.
- Independent Contractors and Businesses Association of B.C.
- B.C. Federation of Labour – 2 representatives

BUSINESS AREAS AND OUTPUTS

Licensing and Home Warranty Insurance

The Homeowner Protection Office licenses residential builders and building envelope renovators province-wide and works to ensure that all new homes built for sale under a construction contract are covered by home warranty insurance. The Office also monitors the performance of the home warranty insurance system which is delivered by the private sector.

These consumer protection measures have created minimum builder licensing and home warranty insurance standards, standardization and a tracking system for the industry where these systems previously did not exist. This system has created an essential foundation for consumer protection and improvement in professionalism in the industry, and has helped bring about improved construction quality. More than 134,000 new homes have been registered under the *Homeowner Protection Act* as of the end of this fiscal year.

Licensing

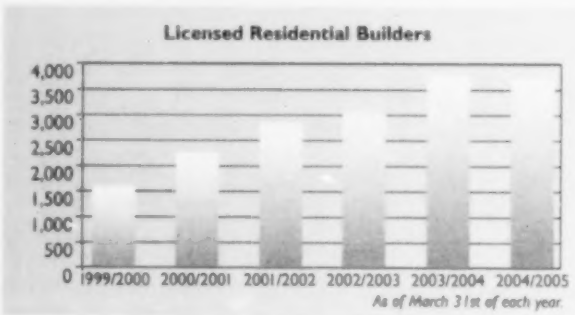
Residential builders must be licensed by the Homeowner Protection Office and arrange for home warranty insurance prior to obtaining a building permit (or commencing construction in geographic areas where building permits are not required).

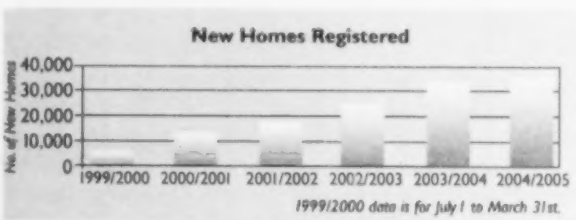
Building envelope renovations on multi-unit buildings not more than 25 years old that meet certain dollar value and percentage-of-wall-repaired thresholds are also subject to the *Homeowner Protection Act* and regulations. Repair contractors for such renovations are required to be licensed by the HPO as building envelope renovators and to arrange for repair warranty insurance in order to obtain a building permit or commence repairs.

a system others may emulate

2004-05 Licensing Highlights
as of March 31, 2005

- 3,649 Licensed Residential Builders
- 60 Licensed Building Envelope Renovators





B.C.'s unique licensing and warranty insurance system to protect consumers is frequently considered by other countries. Photo: The HPO meets with a delegation from Taiwan hosted by the Council of Forest Industries (COFI).

Home Warranty Insurance

Regulations establish minimum home warranty insurance coverage for new home construction and building envelope renovations. Minimum coverage for new homes constructed by Licensed Residential Builders is 2 years on labour and materials (some limits apply), 5 years on the building envelope including water penetration and 10 years on the structure of the home (2-5-10 year home warranty insurance).

Building envelope renovations subject to the *Homeowner Protection Act* and regulations have minimum coverage of 2 years on labour and materials and 5 years on the building envelope including water penetration.

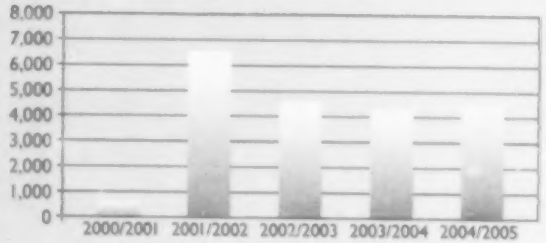
Home warranty insurance can only be provided by insurance companies approved by the Financial Institutions Commission (FICOM). The warranty insurance provider, not the builder, is ultimately responsible for the repair of construction defects. The consumer is protected under the terms and conditions of the warranty insurance whether the Licensed Residential Builder stays in business or not and whether the residential builder is a company or an individual.

All parties, including consumers, have specific responsibilities and obligations under the *Homeowner Protection Act*.

Homes built by licensed residential builders have the strongest construction defect insurance in Canada.

home warranty insurance

Building Envelope Renovations
Repaired Units with Warranty Insurance



As of March 31st of each year.

New Homes Registered and Building Envelope Renovations Under the *Homeowner Protection Act*

	2004/2005
Coastal Multi-Unit Dwellings (units)[1]	16,797
Other Dwellings (units)[2]	14,394
Owner-Builder Exemptions[3] (single detached homes)	2,794
HPO Warranty Exemption (multi-unit)	3,208
Total Starts	**37,193**
Building Envelope Renovations (units)[4]	**4,426**

1. Units built in the coastal climate zone which attract a $750 reconstruction levy and a $25 HPO licensing fee.
2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of the coastal climate zone, which attract only the $25 per unit HPO licensing fee.
3. Subject to minor revision as some data is received by the HPO from municipalities for 2004/05 after the end of the fiscal year.
4. Building envelope renovations attract a $25 per unit HPO licensing fee.

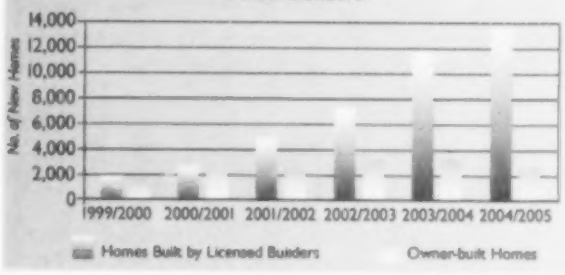
Owner-built Homes

The *Homeowner Protection Act* defines an owner-builder as an individual who builds a single, detached home for their own personal use. Owner-builder eligibility can occur once in every 18 months from the occupancy of a previous owner-built home. An owner-builder does not have to be licensed or arrange for third-party home warranty insurance on their home.

An owner-builder who sells the home without home warranty insurance is personally liable to subsequent purchasers that the home is reasonably fit for habitation, built from materials of good quality, and designed and constructed with ordinary competence, skill and care.

Since the *Homeowner Protection Act* regulations were introduced in 1999, the number of owner-built homes constructed each year has stayed relatively constant while the number of homes built by Licensed Residential Builders has increased steadily.

Comparison of Single Detached Homes Built by Licensed Builders and Owner-Builders



Compliance

The role of the HPO's compliance efforts is to seek voluntary compliance of the *Homeowner Protection Act*. In cases where compliance still does not transpire, the HPO may submit cases to Crown Counsel to consider for prosecution and pursue civil court ordered injunctions. This fiscal year brought more convictions under the *Homeowner Protection Act*.

A significant portion of the compliance team's time is spent monitoring the owner-builder exemption from the licensing and warranty insurance requirements of the *Act*. To better protect consumers and create a more level playing-field for the residential construction industry, the HPO Board of Director's Futures Report contains recommendations to address the abuse of the owner-builder exemption.

A significant amount of the compliance team's time is also dedicated to helping ensure that Licensed Residential Builders remain in good standing and that new homes built by Licensed Residential Builders are enrolled in home warranty insurance.

Convictions Under the *Homeowner Protection Act*	Penalty
2004/2005	
• Shaw Group Capital Ltd. – 2 counts of selling a new home without home warranty insurance	$4,500
• Hardeep Gill – 2 counts of selling a home without home warranty insurance	$1,000
• Avtar Gill – 2 counts of selling a home without home warranty insurance	$1,000
• Ravinder Kaur Gill – selling a new home without home warranty insurance	$1,000
• Henry Barkman – building a home without a licence and building a home without providing home warranty insurance	$1,500
2003/2004	
• Werner Schuck Construction (1997) Ltd. – 5 counts of failing to provide home warranty insurance	$5,000

BUSINESS AREAS AND OUTPUTS CONTINUED

Research and Education

HPO's research and education initiatives support the mandate of the *Homeowner Protection Act* to help bring about improvements in the quality of residential construction for the benefit of the residential construction industry and consumers.

Research and education initiatives are carried out in two key areas:
- building industry research and education, and
- consumer information.

The HPO partners with industry, consumer groups, educational institutions and other levels of government to leverage additional resources and expertise for these initiatives.

Building Industry Research and Education — The HPO works with industry and other partners to bring about efficient and cost-effective building science research and education which is both current and relevant to the residential construction industry. These initiatives help to ensure that new technologies and good building practices are appropriately integrated into industry practice and reduce the likelihood of negative impacts on the building envelope or other components.

2004-05 Building Industry Research and Education Highlights *as of March 31, 2005*

- The following research projects were initiated, completed or underway during the fiscal year:
  - Study of the effects of green building rating systems on the durability of buildings and the building envelope was initiated in partnership with CMHC.
  - Study of poured-in-place concrete wall performance in coastal British Columbia was completed in partnership with CMHC.
  - Research for the study on the performance monitoring of rainscreen wall assemblies was completed in partnership with BC Housing and CMHC.
  - Development of the *Best Practice Guide – Windows* was underway in partnership with CMHC and Natural Resources Canada.
- *Building Smart #1 and #2* educational seminars were delivered on the theme of avoiding moisture problems in the construction of houses. A total of 21 seminars were presented in 14 communities across B.C. with over 1,400 attendees.
- A basic level course on wood-frame house construction was developed in partnership with CMHC, Building Officials Association of B.C. and Canadian Home Builders' Association of B.C.
- The HPO was a major partner in the *Innovations in Building Science* Symposium held in May 2004 in partnership with CMHC and the BC Building Envelope Council. Three HPO-funded research and education projects were profiled at this symposium.

Monitoring the performance of rainscreen wall systems is one of the research projects the HPO is performing with industry partners.

A major initiative in 2004/05 was the development of the "Building Smart" education seminar series that was delivered in 14 communities across B.C. The purpose of the seminars is to provide information on building science, latest research results and good building practices to licensed builders and the industry. The spring Building Smart #1 seminar focused on building science issues and information on different types of wall assemblies to avoid moisture problems in constructing single detached homes and townhouses.

The fall Building Smart #2 seminar further examined this topic and focused on building envelope systems and details. It also provided builders with a tool to evaluate what type of exterior wall systems would be appropriate to address local climatic and building site conditions. A combined total of 1,400 participants attended the Building Smart #1 and #2 seminars including Licensed Residential Builders, building officials, trades, students, apprentices and others in the industry.

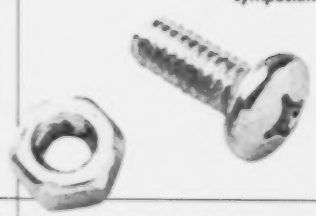
Consumer Information — The HPO provides a range consumer information to help bring about a better informed and protected consumer. This information helps homebuyers to make more informed purchasing decisions and assists owners of leaky homes in undertaking needed repairs to their buildings. Planned initiatives will further help to promote consumers' understanding in several areas, such as: proper maintenance of homes, and the home warranty insurance system including the roles and responsibilities of all participants in these areas.

A combined total of 1,400 industry professionals attended Building Smart #1 and #2 province-wide.

Building Smart Seminars

maintenance bulletins

Manager of Research and Education, John Bell, addresses the industry at the Innovations in Building Science symposium.



2004-05 Consumer Information Highlights
as of March 31, 2005

- Development of building envelope maintenance bulletins – *Maintenance Matters* was initiated in partnership with CMHC, Polygon Homes Ltd. and the Condominium Home Owners' Association.
- The second biennial consumer satisfaction and awareness survey was carried out in the fall of 2004.
- HPO staff attended 36 on-site strata meetings to provide owners with information on financial assistance programs for the repair of leaky homes.
- 35,633 callers, including consumers, Licensed Residential Builders, owner-builder applicants, and others in the industry, were assisted through the HPO's 1-800 toll-free information line.
- 153,126 website visitors obtained information on HPO programs.
- HPO staff answered consumer questions at 15 trade and consumer shows throughout the province.

BUSINESS AREAS AND OUTPUTS CONTINUED

Financial Assistance

The Homeowner Protection Office administers and delivers financial assistance programs for owners of leaky homes. The financial assistance programs consist of the Reconstruction Loan Program and the PST Relief Grant.

Reconstruction Loan Program

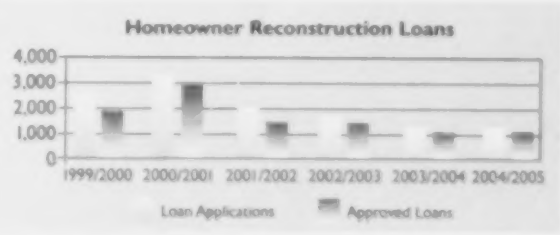
The goal of the Reconstruction Loan Program is to ensure that owners do not have to lose their homes due to the cost of building envelope repairs.

The Reconstruction Loan Program provides no-interest repair loans to eligible owners of leaky homes who do not have adequate savings or cannot qualify for a conventional loan to pay for building envelope repairs. The program is also available to eligible leaky housing co-operatives. Homes that are no more than 25 years old and are deemed by an architect or engineer to be suffering from "premature building envelope failure" can be eligible.

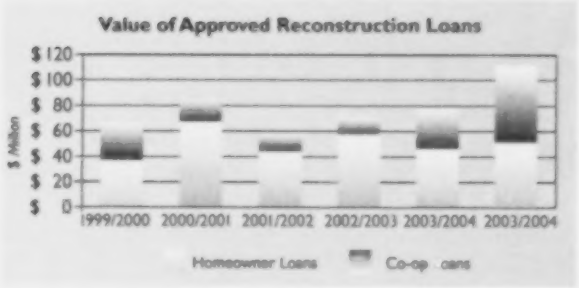
The owner makes monthly principal-only payments which are set at affordable levels by the HPO through one-on-one consultations with the applicants. In cases of extreme need when the minimum payment of $50 per month is not affordable, as with some seniors on fixed incomes, a deferred payment loan allows the homeowner to receive the full amount required to repair the home and they do not have to make payments for as long as they live in the home.

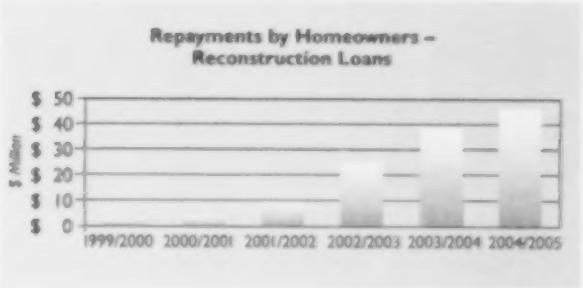
2004-05 Reconstruction Loan Program Highlights
as of March 31, 2005

- During the 2004/05 fiscal year, 1,112 homeowner loans were approved with a total value of $51.8 million.
- The average homeowner loan amount since the program's inception was $29,556 as of March 31st, 2005.
- The number of deferred payment loans represented 16% of the number of homeowner loans, totaling more than $9.4 million in financial assistance.
- Homeowners made loan repayments totaling $47.3 million during the year.
- The HPO approved 5 housing co-operative loans totaling $14.9 million and representing 237 units. The total value of co-op loans approved was $61.3 million which includes increases to loan amounts for 19 housing co-operatives approved from past years. The average per unit loan amount since the program's inception was $56,173 as of March 31st, 2005.
- Since the HPO's inception in 1998, 10,657 homeowner loans and 51 co-op loans (representing 2,893 units) have been approved totaling more than $477.5 million in financial assistance.



Eligibility for the Reconstruction Loan Program is determined on a case by case basis. Photo: Manager of Loans, Sharon Turk, explains the no-interest loan program.



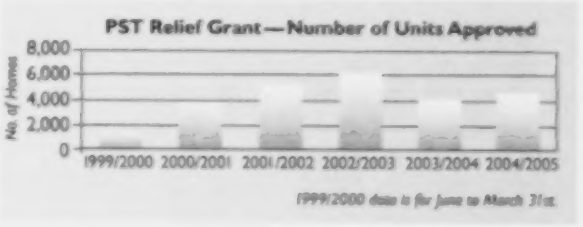


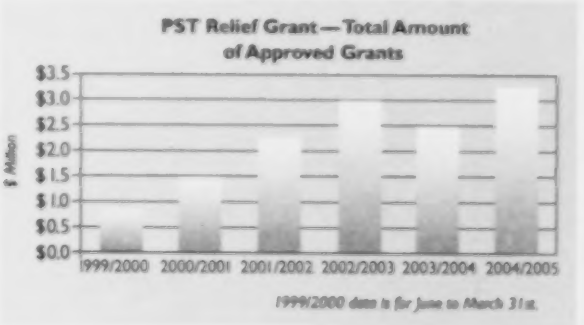
PST Relief Grant Program

This program provides tax relief to owners of leaky homes with completed building envelope repairs. Multi-unit residences, townhouses and single detached dwellings are eligible under the program. The PST Relief Grant Program provides a rebate which approximates the PST paid on the repair. In general, about 40% of the repair cost is subject to PST.

2004-05 PST Relief Grant Highlights
as of March 31, 2005

- 87 applications representing over 4,500 homes were approved for PST Relief Grants totaling $3.3 million.
- Since the PST Relief Grant was introduced in 1999, $13.3 million in grants to owners in over 26,000 homes have been approved with an average grant per home of $508.





Performance Measures, Targets and Results

This section reports on the actual performance of the Homeowner Protection Office relative to the performance measures and targets that were identified for the 2004/2005 fiscal year. Measures include satisfaction and awareness levels as well as indicators of effectiveness and responsiveness in the various program areas. Historical results and future targets are presented along with benchmark performance of similar organizations or published industry averages where appropriate.

The performance measures are organized according to the 2005-2008 Service Plan goals, providing the reader with the most up-to-date picture of the HPO's goals and objectives. The 2005-2008 Service Plan takes into account government's approval in February 2005 of the Futures Report, a document containing the HPO Board's recommendations for the *Homeowner Protection Act* and the HPO. The 2005-2008 Service Plan contains five goals compared to the three goals identified in the previous year's service plan, as described in the chart above.

Given the strong linkages between the two service plans, nearly all of the existing performance measures contained in the 2004-2007 Service Plan were carried over into the 2005-2008 Service Plan. The results for all performance measures contained in the 2004-2007 Service Plan are described in this annual report. Baseline data for new measures introduced in the 2005-2008 Service Plan are also included.

2005-2008 Service Plan Goals	Comparison to 2004-2007 Service Plan
1. Professionalization of the residential construction sector	New goal, not contained in the 2004-2007 Service Plan. This new goal is consistent with the general direction of last year's goal of "Fostering an improvement in the quality of residential construction", and shares several of the same objectives.
2. Informed and protected consumers	Refinement of last year's goal of "Strengthening consumer protections for homebuyers and homeowners" with new objectives.
3. Continued viability of the home warranty insurance system	New goal, not contained in the 2004-2007 Service Plan. New objectives are also identified.
4. Become a strategic centre for building industry research	Expansion of last year's goal of "Increased research and education" with new objectives.
5. An aligned, focused and capable organization	New goal, not identified in the 2004-2007 Service Plan. New objective also identified.

Performance Measures, Targets and Results

Summary of Results

The 2004-2007 Service Plan sets out eleven performance targets for 2004/05. A summary of the results is presented below.

Performance met or exceeded the targets for five of the eleven measures:

- Investigations resulting in voluntary compliance under the *Act*
- Recovery of home values following building envelope renovation
- Warranty insurance claims rate of homes built under the *Act*
- Research results disseminated through symposiums, seminars or workshops, and
- Research results incorporated into building standards and best practices.

Progress was made towards meeting the targets or results held steady for five measures:

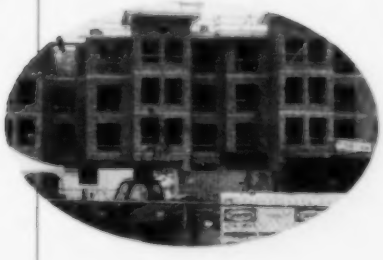
- Homebuyer awareness of consumer protections under the *Act*
- Homeowner satisfaction with home warranty insurance
- Reconstruction Loan default rate
- Resources for research projects leveraged by HPO through funding partners, and
- Timeliness of decisions on completed license applications.

Performance for the measure pertaining to builder satisfaction with the licensing system is not reported in this Annual Report as the survey of licensed residential builders is carried out on a biennial basis and was not surveyed in 2004/05. Performance for this measure will be reported in next year's annual report.

The following section provides a detailed description of targets and actual results of the measures noted on this page, as well as baseline data for new measures introduced in the 2005-2008 Service Plan. These measures are categorized by the new goals for the HPO as set out in the 2005-2008 Service Plan.

performance

results



Performance Measures, Targets and Results

GOAL ONE: PROFESSIONALIZATION OF THE RESIDENTIAL CONSTRUCTION SECTOR

BUILDER SATISFACTION WITH THE LICENSING SYSTEM

Year	Target	Actual
2003/04	collect baseline data	83%
2004/05	**Not surveyed**	-
2005/06	88% or higher builder satisfaction	
2006/07	Not surveyed	
2007/08	90% or higher builder satisfaction	

This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Baseline data was obtained through a 2003/04 survey of all Licensed Residential Builders in the province (see note on page 25). The second biennial builder survey will be carried out in 2005/2006.

The 2003/04 survey found that 83% of Licensed Residential Builders were very or somewhat satisfied with the HPO licensing system. Sub-components of satisfaction that were tracked include:

- 76% satisfaction with the rules/requirements
- 86% satisfaction with the application process
- 82% satisfaction with the renewals process, and
- 92% satisfaction with timeliness of licensing decisions.

Lower levels of satisfaction were noted in the Kootenays and in central and northern B.C.

INVESTIGATIONS RESULTING IN VOLUNTARY COMPLIANCE UNDER THE *HOMEOWNER PROTECTION ACT*

Year	Target	Actual
2002/03	70% or higher	76%
2003/04	72% or higher	94%
2004/05	**80% or higher**	**99%**
2005/06	To be replaced with a new measure (see below)	

This measure focuses on the effectiveness of HPO compliance activity in reducing abuse of the owner-builder exemption from licensing and home warranty insurance requirements. Voluntary compliance means that the owner either met the owner-builder requirements under the *Act*, or chose to become a Licensed Residential Builder. A target of 70% means that 70% of owner-builder investigations by compliance staff confirmed and/or resulted in voluntary compliance with the *Homeowner Protection Act*. Investigations by compliance staff typically involve visits to construction sites as well as follow-up site visits, calls or enquiries as needed.

Data from 2004/05 reveals that the target was met, with 99% of owner-builder investigations resulting in voluntary compliance. This measure will be replaced with an improved measure "Builder Rating of Effectiveness of Compliance Efforts" (see below) in the 2005/06 Annual Report due to difficulties in achieving consistency in data reporting over time for this measure.

BUILDER RATING OF EFFECTIVENESS OF COMPLIANCE EFFORTS

Year	Target	Actual
2003/04	Collect baseline data	72%
2004/05	**Not surveyed**	-
2005/06	75%	
2006/07	Not surveyed	
2007/08	80%	

This is a new measure introduced in the 2005-2008 Service Plan, and replaces the former measure of Investigations Resulting in Voluntary Compliance Under the *Homeowner Protection Act*. It tracks the builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce compliance of the builder licensing requirement, home warranty insurance requirements and the owner-builder exemption. As a new measure, targets have been established commencing in 2005/06.

The 2003/04 survey of licensed residential builders found that 72% of builders felt that HPO's compliance efforts were very or somewhat effective, and 27% felt that they were ineffective. Builders in the Kootenays and in central and northern B.C. had a lower rating of the effectiveness of HPO's compliance efforts.

GOAL TWO: INFORMED AND PROTECTED CONSUMERS

HOMEBUYER AWARENESS OF CONSUMER PROTECTIONS UNDER THE *HOMEOWNER PROTECTION ACT*

Year	Target	Actual
2002/03	Collect baseline data	73% for builder licensing 45% for home warranty insurance
2003/04	Not surveyed	-
2004/05	**80% for licensing 55% for home warranty insurance**	69% for builder licensing 52% for home warranty insurance
2005/06	Not surveyed	
2006/07	90% for licensing 70% for home warranty insurance	
2007/08	Not surveyed	

This measure tracks prospective homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Data is obtained through a biennial consumer survey (see note on page 25).

Progress has been made over the past two years, with a higher level of awareness of home warranty insurance among prospective homebuyers, rising to 52% in 2004/05 from 45% in 2002/03. Consistent with 2002/03, seven-in-ten prospective new home buyers in 2004/05 claimed that they definitely knew that virtually all builders must be licensed to operate. These results, however, fell short of the targets set for 2004/05 of 55% awareness levels for home warranty insurance and 80% for licensing requirements.

homebuyer awareness

HOMEOWNER SATISFACTION WITH HOME WARRANTY INSURANCE

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	Not surveyed	-
2004/05	**85%**	**80%**
2005/06	Not surveyed	
2006/07	90%	
2007/08	Not surveyed	

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new homes. Data is obtained through a biennial consumer survey.

In 2004/05 the majority of new homeowners, 80%, continue to be very to somewhat satisfied with the protection provided by their warranty insurance. The proportion has declined slightly from the 83% reported in 2002/03. The actual result of 80% for 2004/05 was lower than the target of 85%. Satisfaction levels were consistent among owners of both single detached and multi-unit homes. First-time buyers showed a higher degree of satisfaction (84%).

Results from the 2002/03 survey reflect homeowners who were at the initial years of coverage, with the introduction of home warranty insurance requirements in July 1999. Data for 2004/05 reflect homeowners with policies at various years of coverage which includes, at a minimum, 2 years on materials and labour, 5 years on building envelope and 10 years on structure.

homeowner protection

HOMEOWNER SATISFACTION WITH THE QUALITY OF HOME CONSTRUCTION

Year	Target	Actual
2002/03	Collect baseline data	93%
2003/04	Not surveyed	-
2004/05	**Target not established (new measure)**	**91%**
2005/06	Not surveyed	
2006/07	95%	
2007/08	Not surveyed	

This is a new measure introduced in the 2005-2008 Service Plan. It tracks the satisfaction with the quality of home construction among owners with warranty insurance on their homes. Data is obtained through a biennial consumer survey. As a new measure, targets have been established commencing in 2006/07.

Consistent with 2002/03 results, over 90% of homeowners in 2004/05 report being satisfied with the quality of construction of their home. Specifically 52% are very satisfied and 39% somewhat satisfied in 2004/05 for an over 91% satisfaction rate.

Satisfaction levels are slightly higher among those in single detached homes at 94% compared to multi-unit homes at 89%.

HOMEOWNER SATISFACTION WITH THE BUILDING PROCESS

Year	Target	Actual
2004/05	**Collect baseline data**	**83%**
2005/06	Not surveyed; establish target	
2006/07	Meet target	
2007/08	Not surveyed	

This is a new measure introduced in the 2005-2008 Service Plan. It tracks the satisfaction levels with the building process among homeowners with warranty insurance. Data for this measure is obtained through a biennial consumer survey. Baseline data was collected in the 2004/05 consumer survey.

Overall, 83% of homeowners were very or somewhat satisfied with the building process in 2004/05. This ranges from 79% satisfaction among homeowners who purchased a spec home on a pre-sale basis, to 92% satisfaction among homeowners who had their home custom built by a licensed builder. Further breakdown of the results includes:

- 81% satisfaction overall with the cost and budgeting
- 69% satisfaction with the contractor/builder developer, and
- 64% satisfaction with the time it took to build the home.

Targets for this measure will be established in the 2006-2009 Service Plan.

satisfaction levels with building process

Performance Measures, Targets and Results

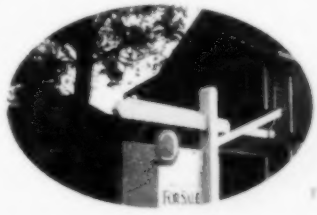
RECOVERY OF HOME VALUES FOLLOWING BUILDING ENVELOPE RENOVATION

Year	Target	Actual
2002/03	Collect baseline data	55%
2003/04	50% or more	77%
2004/05	**60% or more**	**92%**
2005/06	80% or more	
2006/07	85% or more	
2007/08	90% or more	

This measure tracks the improvement of assessed values of homes following the completion of building envelope repairs. It is calculated as the percentage of homes that have recovered assessed values equal to 90% or more than the cost of repairs. (see note on page 25).

In 2004/05, 92% of homes recovered assessed values equal to 90% or more than the cost of repairs. This exceeds the target of 60% or more, and is a sharp jump from the previous year when 77% of homes had recovered this amount, reflecting stronger housing demand and higher resale prices over the past year.

Among the home values analyzed for this measure, the average pre-repair price had risen from $104,700 to $175,700 post repair. The analysis is based on 2004 assessed values and includes more than 9,020 homes in 490 buildings with completed building envelope renovations under the Reconstruction Loan Program since 1998.



recovery of home values

RECONSTRUCTION LOAN DEFAULT RATE

Year	Target	Actual
2002/03	4% or less	1.8%
2003/04	4% or less	1.8%
2004/05	**1% or less**	**1.8%**
2005/06	1% or less	
2006/07	1% or less	
2007/08	1% or less	

This measure tracks the effectiveness of the Reconstruction Loan program in helping to ensure that homeowners do not lose their homes as a result of building envelope repair costs. It compares the number of reconstruction loans in default to the total number of loans issued to homeowners through the program.

The Reconstruction Loan Program provides no-interest loans to owners of leaky homes who would not otherwise be able to pay for or obtain financing for repair costs, e.g., they may be experiencing an overall high debt to equity ratio.

The default rate has remained constant at 1.8% and is slightly higher than the target of 1%. (See note page 25 regarding methodology).

The Reconstruction Loan Program default rate was slightly higher than default rates of all housing loans or mortgages for B.C. and Canada which were less than 1% at 0.23% and 0.26% respectively as of December, 2004 (Source: Canadian Bankers Association). This reflects the more difficult financial situation associated with recipients of HPO Reconstruction Loans as compared with housing loans in general.

GOAL THREE: CONTINUED VIABILITY OF THE HOME WARRANTY INSURANCE SYSTEM

HOMES BUILT UNDER THE *HOMEOWNER PROTECTION ACT* WITH WARRANTY INSURANCE CLAIMS

Year	Target	Actual
2002/03	Collect baseline data	5%
2003/04	Not surveyed	n.a.
2004/05	**5% or less**	**4%**
2005/06	4% or less	
2006/07	3% or less	
2007/08	3% or less	

This measure is intended to compare the number of claims made by homeowners under their home warranty insurance to the number of homes enrolled during the specified period (see note on page 25).

As in 2002/03, results from the 2004/05 homeowner satisfaction survey were used as proxy data for this measure, specifically the percentage of homeowners who indicated that they have experienced a problem with their home's workmanship, materials or structure, and who involved their warranty insurance company in resolving the problem. This proxy data is used in the absence of summary claims data provided to the HPO by warranty providers.

The 2004/05 consumer survey found that 4% of homeowners involved their warranty provider in resolving a problem with their home. This rate is lower than the target of 5% or less for the 2004/05 fiscal year.

By comparison, Tarion Warranty Corporation (formerly known as the Ontario New Home Warranty Program) experienced a claims rate of 1.7% in 2003/04. Conciliation and claim inspections[1] were carried out on 4.5% of homes enrolled. In 2004, the Alberta New Home Warranty Program experienced a claims rate per enrollment of 0.24%, and a conciliation incidence rate per enrollment of 2.68%.

[1] *Unlike the Homeowner Protection Act in B.C., the Ontario New Home Warranties Plan Act 1976 legislates a system whereby home buyers are protected by a mandatory builder's warranty obligation. A homeowner may request a conciliation if they believe that their builder is not honouring their obligation. A conciliation involves a meeting with the homeowner, builder and a Tarion Warranty representative to determine whether the items at issue are covered under the terms of the builder's warranty. If a builder fails to abide by the results of a conciliation, the owner can submit a claim to Tarion for breach of warranty.*

BUILDER RATING OF THEIR OVERALL RELATIONSHIP WITH THEIR WARRANTY PROVIDER

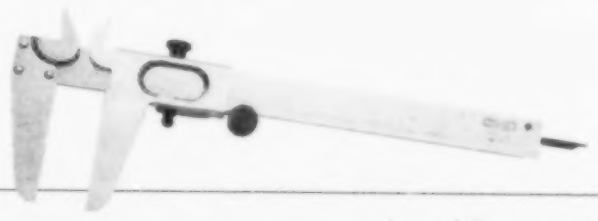
Year	Target	Actual
2003/04	Collect baseline data	87%
2004/05	**Not surveyed**	-
2005/06	90%	
2006/07	Not surveyed	
2007/08	92%	

This is a new measure introduced in the 2005-2008 Service Plan. It tracks Licensed Residential Builders' overall rating of their relationship with their warranty provider. Data for this measure is obtained through a biennial builder survey.

In 2003/04, 87% of builders felt they had a good or excellent relationship with their warranty provider. Specifically 40% rate the relationship as excellent and 47% rate it as good. Subcomponents of this measures include:

- 75% rate handling of complaints or claims from consumers as excellent or good
- 37% rate the cost of warranty insurance as excellent or good, and
- 79% rate the ease of application process for coverage as excellent or good.

warranty provider rating



HOMEOWNER SATISFACTION WITH HOME WARRANTY INSURANCE

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	Not surveyed	-
2004/05	**85%**	**80%**
2005/06	Not surveyed	
2006/07	90%	
2007/08	Not surveyed	

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Data is obtained through a biennial consumer survey.

In 2004/05 the majority of new homeowners (80%) continue to be very to somewhat satisfied with the protection provided by their warranty insurance. This percentage has declined slightly from the 83% reported in 2002/03. At 80%, the actual result for 2004/05 was lower than the target of 85%. Satisfaction levels were consistent among owners of both single detached and multi-unit homes. First-time buyers showed a higher degree of satisfaction at 84%.

Results from the 2002/03 survey reflect homeowners who were at the initial years of coverage, with the introduction of home warranty insurance requirements in July 1999. Data for 2004/05 reflect homeowners with policies at various years of coverage which includes, at a minimum, 2 years on materials and labour, 5 years on building envelope and 10 years on structure.

GOAL FOUR: BECOME A STRATEGIC CENTRE FOR BUILDING INDUSTRY RESEARCH

RESEARCH RESULTS DISSEMINATED THROUGH SYMPOSIUMS, SEMINARS OR WORKSHOPS

Year	Target	Actual
2000/01 2001/02	During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.	The HPO and its partners presented B.C.'s first 1 day Building Envelope Research Symposium profiling all HPO research projects carried out to date.
2002/03 2003/04	During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.	HPO-funded research profiled at 19 industry educational sessions which included the first five sessions of Building Smart: "Avoiding Moisture Problems in Houses" seminar.
2004/05 2005/06	**During this 2 year cycle, 1 major symposium or publication and 20 educational sessions**	**During the first year of the two-year cycle, the HPO contributed to the Innovations in Building Science Symposium in May/04 and held 21 Building Smart education seminars throughout B.C. in the spring and fall.**
2006/07 2007/08	*During this 2 year cycle, 1 major symposium or publication and 20 educational sessions.*	

This measure focuses on the HPO's role in disseminating research results and helping to support the integration of new technologies and best practices in the industry through participation in major research publications, symposia, and the delivery of educational sessions or workshops.

Progress has been made in meeting the two-year target of 2004/05 to 2005/06 for this measure (see note on page 25). The HPO participated as a major partner in the *Innovations in Building Science Symposium* hosted by the BC Building Envelope Council in May 2004. Three HPO-funded research and education projects were profiled at the symposium.

Four new research and education projects were commenced in 2004/05. Building Smart educational seminars were held in 21 locations throughout the province during the spring and fall sessions.

The HPO participated in the Building Research Committee of the B.C. Building Envelope Council, and Canadian Home Builders' Association's Technical, and Education and Training committees.

Industry representatives learned about the latest advances in technology at the Innovations in Building Science symposium.

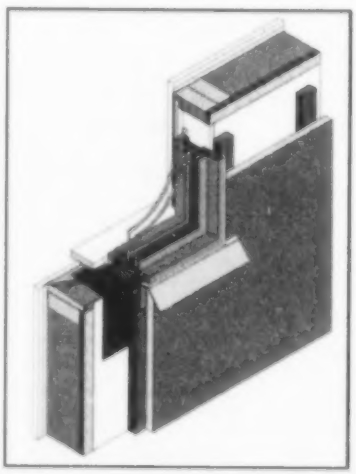
symposiums
seminars
workshops

RESEARCH RESULTS INCORPORATED INTO BUILDING STANDARDS AND BEST PRACTICES

Year	Target	Actual
2002/03	The HPO participates on National Building Code committees and in the development of best practices and training courses.	HPO representative on National Building Code Standing Committees (2) on Houses and Environmental Separation, and CSA Strategic Steering Committee on Building Products and Systems.
2003/04	Participation in federal and provincial processes to update the current building code, and to develop best practices and training courses.	Continued involvement in the committees noted above. As a follow-up to the research on water penetration resistance of windows, HPO entered into a partnership to co-fund the development of a best practice guide on windows.
2004/05	**Participation in federal and provincial processes to update the current building code, and to develop best practices and training courses.**	**Continued involvement in the committees noted above. Continued partnership with CMHC and Natural Resources Canada on the development of the Windows Best Practice Guide. Collaboration with provincial Building Policy Branch regarding 2005 building code. Building Smart educational sessions presented at building officials' educational conferences.**
2005/06 2006/07 2007/08	Participation in federal and provincial processes to update the current building code, and to develop best practices and training courses.	

This measure looks at the effectiveness of the HPO in helping to ensure that the results of research projects are incorporated into standards, codes and best practices.

The performance measure tracks the HPO's participation on national and provincial code committees, and involvement in the development and promotion of best practices and training courses.



window cross section

RESOURCES LEVERAGED BY THE HPO THROUGH OTHER FUNDING PARTNERS

Year	Target	Actual
2002/03	At least twice the amount invested by the HPO leveraged through partnerships	Contributions by partners represented 79% of total project funding.
2003/04	At least twice the amount invested by the HPO leveraged through partnerships	Contributions by partners represented 42% of total project funding.
2004/05	**At least twice the amount invested by the HPO leveraged through partnerships**	**Contributions by partners represented 54% of total project funding.**
2005/06	At least twice the amount invested by the HPO leveraged through partnerships	
2006/07	At least twice the amount invested by the HPO leveraged through partnerships	
2007/08	At least twice the amount invested by the HPO leveraged through partnerships	

This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for projects that were completed or underway during the fiscal year. In other words, the target is for contributions by partners to represent at least two-thirds (67%) of the total project funding.

Contributions by partners represented 54% of total project funding. This percentage for 2004/05 represents an increase over the previous year, but does not meet the established target.

Ten projects were completed or underway during the fiscal year which represented an HPO funding commitment of approximately $158,300. Our partners committed an additional $185,300 to these projects for a total financial commitment of approximately $343,600. Seven of the 10 projects involved funding partnerships whereby contributions from partners represented 72% of total project funding.

Major funding partners in 2004/05 include Canada Mortgage and Housing Corporation, Natural Resources Canada, BC Housing, Building Officials Association of BC and Polygon Homes Ltd.

major funding partners

BC Housing

POLYGON

GOAL FIVE: AN ALIGNED, FOCUSED AND CAPABLE ORGANIZATION

TIMELINESS OF DECISIONS ON COMPLETE LICENSE APPLICATIONS

Year	Target	Actual
2002/03	5 business days or less	3.1 business days
2003/04	5 business days or less	3.6 business days
2004/05	**3 business days or less**	**3.1 business days**
2005/06	3 business days or less	
2006/07	3 business days or less	
2007/08	3 business days or less	

This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders.

The response time of 3.1 business days in 2004/05 represents an improvement from 3.6 business days in the previous year, but is slightly over the target of 3.0 business days for 2004/05.

The licensing approval process typically involves verification of company information, acceptance with a home warranty insurance provider and past residential construction activity.

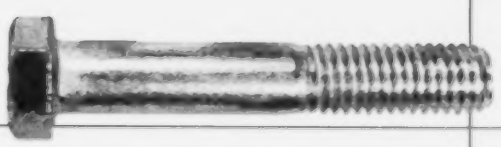
Meeting targets for processing times can be a challenge during times when the level of building activity is high which was the case in 2003/04 and 2004/05.

HPO licensing timelines compare well with similar or related organizations:

- Washington State contractor registration
  - 2 days for applications that are mailed
  - One hour or less for walk-in registrations
- Maryland Home Builder Registration (similar requirements to B.C.) — 5 to 7 days
- Tarion Warranty Corporation (formerly Ontario New Home Warranty Program) builder registration — 2 to 4 weeks.
- The Builders Registration Board of Western Australia — 6 to 8 weeks.

3.1 business days

for licensing decisions



Notes on Performance Measures and Data Sources

Survey of Licensed Residential Builders

The biennial survey of licensed residential builders is the data source for several key performance measures. Carried out by a market research firm, the 2004/05 builder survey is a self-administered questionnaire sent to all licensed residential builders in B.C. The final response of 968 builders provides a confidence level of 95% with the maximum margin of error of +/- 5.7%.

Consumer Survey

The biennial consumer survey is the data source for several key performance measures. Carried out by a market research firm, the survey includes two separate groups of consumers, specifically 1) homeowners with warranty insurance under the *Homeowner Protection Act* on their home, and 2) prospective new home buyers. For the 2004/05 consumer survey a total of 601 telephone interviews were conducted with owners of homes covered by warranty insurance. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/- 4.0%. In addition, a total of 300 telephone interviews were conducted with B.C. residents who were considering buying newer homes (i.e. purchase a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.7%.

The 2002/03 consumer survey followed the same methodology. A total of 602 telephone interviews were conducted with owners of homes covered by warranty insurance under the *Homeowner Protection Act*. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/- 4.0%. In addition, a total of 363 telephone interviews were conducted with B.C. residents who were considering buying newer homes (i.e. purchasing a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.1%.

Recovery of Home Values Following Building Envelope Renovation

Assessed values of homes are adjusted on an annual basis by the B.C. Assessment Authority to reflect changes in the market value of the homes and to take into account such factors as property improvements or renovations, and sales for comparable properties in the neighborhood. Assessment data offers the opportunity to track changes in home values including homes that have not been put on the market or sold by owners. It should also be noted that annual reporting for this measure includes a 6-month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

Reconstruction Loan Default Rate

In this annual report, the reported loan default rate for the 2002/03 and 2003/04 fiscal years has been revised to 1.8% compared to the default rates of .85% and 1.2%, respectively, as shown in the 2002/03 and 2003/04 annual reports. This change reflects an adjustment in the methodology used to calculate this measure.

Homes with Warranty Insurance Claims

The warranty insurance claims process is set out in the *Homeowner Protection Act*. The homeowner must provide the warranty provider and residential builder written notice in reasonable detail that provides the particulars of any specific defects covered by the home warranty insurance. Upon receipt of a notice of claim, a warranty provider must make reasonable efforts to respond, evaluate the claim and schedule any required repairs. During the evaluation, the warranty provider determines the validity of the claim, and notifies the owner of the reasons for the decision.

Research Results Disseminated Through Symposiums, Seminars or Workshops

A two-year target is used for this performance measure to take into account research and education projects that involve planning and implementation timeframes that typically span more than one fiscal year.

Alignment with Provincial Government Priorities and Government Direction Provided

Alignment

This annual report describes the HPO's performance towards achieving the five key goals:

1) Professionalization of the residential construction sector
2) Informed and protected consumers
3) Continued viability of the home warranty insurance system
4) Become a strategic centre for building industry research, and
5) An aligned, focused and capable organization.

These goals are closely aligned with the vision stated in the Province's 2005/06 to 2007/08 Strategic Plan:

> *"British Columbia is a prosperous and just province, whose citizens achieve their potential and have confidence in the future."*

Our goals are also aligned with Government's first goal of:

> *"a strong and vibrant economy".*

The Homeowner Protection Office contributes to this goal by fostering growth and consumer confidence in B.C.'s residential construction sector. This sector is a major economic driver, contributing to the province's gross domestic product at a level that is comparable to other major industries in the province such as forestry and utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes, and thus, creates new, higher-paying jobs and employment opportunities for British Columbians. The rehabilitation of the reputation of wood-frame construction has enhanced markets for British Columbia's forest products at home and abroad.

confidence

in the future

Government Direction

As part of the Province's Core Services Review process, the Homeowner Protection Office Board of Directors was instructed to develop recommendations for the future of the *Homeowner Protection Act* and the Homeowner Protection Office. The Futures Report, which contained the Board's recommendations, was submitted to the Minister of Community Aboriginal and Women's Services in September 2004.

In February 2005, the Minister sent a letter to the Board which approved the recommendations and provided specific direction for their implementation (see the Message from the Chairperson to the Minister on page 2). The HPO has incorporated this direction in its goals and performance measures.

Glossary of Terms

Building Envelope — the assemblies, components and materials of a building that are intended to separate and protect the interior space of the building from the adverse effects of exterior climatic conditions.

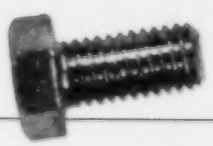
Building Envelope Renovation — construction work on a residential building to:

- repair defects in the building envelope which allow for unintended water penetration, or
- repair damage caused by unintended water penetration.

Building Envelope Renovator — a residential renovator who is licensed under Part 1 of the *Homeowner Protection Act* to engage in, arrange for or manage all, or substantially all, of a building envelope renovation.

Futures Report — a document containing the HPO Board of Directors' recommendations for the future of the *Homeowner Protection Act* and regulations as well as the Homeowner Protection Office which has been approved by the Minister of Community Aboriginal and Women's Services.

Owner-builder — an individual who builds a single, detached home for their own personal use, not more than once in an 18-month period.

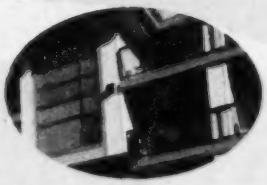


Premature Building Envelope Failure — premature deterioration of the building envelope assembly resulting from environmental factors including airflow, radiant energy, water vapour, rain and snow.

Residential Builder — a person who engages in, arranges for or manages all or substantially all of the construction of a new home, and includes a developer and a general contractor.

Homeowner
Protection Office

Financial Report



31 March 2005

Homeowner Protection Office

Homeowner Protection Office

OVERVIEW

Revenues collected from residential builder license fees provide the funding for the HPO's programs with the exception of the Reconstruction Loan Program and the PST Relief Grant Program. The Reconstruction Loan Program is funded by a reconstruction levy on new residential units in multi-unit buildings constructed in the coastal climate zone. When demand for financial assistance is greater than the revenues collected from the reconstruction levy, the Office receives bridge financing from the Province of British Columbia. The HPO is required to repay these borrowings over time. The PST Relief Grant Program is administered on behalf of the Province of British Columbia and the Province funds all expenditures under this program.

The B.C. housing market in which the HPO operated remained strong throughout the year. Housing starts continued upward. The number of licensed builders remained relatively stable with a slight decrease over the same time period from last year. The demand for financial assistance increased over last year as more owners of leaky homes repaired their units. These factors resulted in an increase in both revenues and expenditures.

NET OPERATING RESULTS

Net income is down $0.6 million from a net income of $4.6 million in 2003/04 to $4.0 million in 2004/05. While revenues increased $0.6 million from $24.3 million in 2003/04 to $24.9 million in 2004/05, expenditures rose significantly, up $1.2 million from $19.7 million in 2003/04 to $20.9 million in 2004/05. This rise in expenditures was mainly attributable to a greater demand for reconstruction loans, rebate payments under the PST Relief Grant Program and increased initiatives in the Research and Education program. Compared to the budget, revenues are up significantly due to a stronger housing market, while expenditures are down due to a favourable interest environment. The office ended the year with a surplus. (See table below showing the changes in net operating results).

	Net Operating Results								
	Actual 2004/2005 ($000's)	Actual % change to actual over last year	Budget 2004/2005 ($000's)	Actual % to Budget 2004/2005	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Revenues	24,940	2.5	21,242	17.4	24,339	3.8	23,444	23.3	19,016
Expenditures	20,864	5.9	22,537	(7.4)	19,702	(1.1)	19,917	2.1	19,499
Net income (loss)	4,076	(12.1)	(1,295)	414.7	4,637	31.5	3,527	830.2	(483)

GENERAL OPERATING PROGRAM RESULTS

These programs comprise Research and Education, and Licensing which are funded by residential builder license fees.

Expenditures on research and education are up significantly from $0.3 million in 2003/04 to $0.5 million in 2004/05 as a result of increased initiatives including the "Building Smart" seminars.

Revenues from license fees collected experienced a slight increase, up $0.1 million from $2.9 million in 2003/04 to $3.1 million in 2004/05 as a result of a continued strong housing market. Expenditures on licensing and compliance activities decreased slightly from $1.9 million in 2003/04 to $1.8 million in 2004/05 mainly due to lower support service costs.

FINANCIAL ASSISTANCE PROGRAM RESULTS

The HPO provides financial assistance to owners of leaky homes through its Reconstruction Loan Program and the administration of the PST Relief Grant Program.

PST Relief Grant Program

The PST Relief Grant Program provides a rebate on completed building envelope renovations and is available to owners of condominiums, townhouses, detached homes and housing co-operatives. This program is administered on behalf of the Province of British Columbia. PST Relief Grant payments are up significantly from $2.5 million in 2003/04 to $3.3 million in 2004/05. The PST Relief Grant Program experiences fluctuations in the total value of grant payments as payments are made on the completion of eligible repairs subject to advance approval of the grant application. As grant applications may be submitted at any time, increases (decreases) may not necessarily indicate a trend. (See table below showing the changes in the value of grant payments).

Value of PST Relief Grant Payments

	2004/2005 ($000's)	% change over last year	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Grant payments	3,271	30.8	2,501	(19.5)	3,107	42.4	2,182

Reconstruction Loan Program

The HPO continues to provide financial assistance to all eligible homeowners to meet the demand as homeowners repair leaky units. The demand for financial assistance, as expressed by the number of loans approved, is up 4.2% over last year, excluding housing co-operative repair loans. This rise follows a substantial decrease in the previous year. The fluctuations in the number of loans issued occur due to the timing of when strata councils approve the repair cost. (See table below showing the changes in the number of loans approved by the HPO).

Number of Approved Reconstruction Loans

	2004/2005	% change over last year	2003/2004	% change over last year	2002/2003	% change over last year	2001/2002
HPO mortgages and deferred payment loans	399	3.9	384	(28.8)	539	10.5	488
Financial institutions no-interest loans	713	4.4	683	(36.6)	1,077	(1.7)	1,096
Total HPO & financial institutions loans	1,112	4.2	1,067	(34.0)	1,616	2.0	1,584
Total co-op loans through CMHC	237	(64.5)	667	373.0	141	(66.3)	419

The average value of the issued loan amounts continued an upward trend that contributed to an increase in expenditures in the Reconstruction Loan Program. For example, the value of the average reconstruction loan rose 14.5% again this year to over $47,000 per unit in 2004/05 for HPO-issued mortgages. This trend is mainly due to the rising repair costs associated with labour and materials. (See table on the next page showing the changes in the annual average loan amounts by loan category).

Average Value Per Unit of Issued Reconstruction Loans

	2004/2005 ($000's)	% change over last year	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
HPO mortgages	47,393	14.5	41,383	14.5	36,133	21.0	29,855
HPO deferred payment loans	45,509	27.9	35,585	(13.9)	41,307	53.9	26,845
Financial institutions no-interest loans	42,411	5.2	40,308	12.8	35,746	30.6	27,361

The per unit value of approved housing co-operative repair loans also increased significantly up 47.5% over last year's cumulative average loan amount of $38,090 to $56,173 due to significantly higher repair costs for these units.

Low interest rates in the 2004/05 year resulted in a significant decrease in subsidy interest payments, which the HPO paid to financial institutions and CMHC holding no-interest repair loans. This cost decreased 13.7% from $5.1 million in 2003/04 to $4.4 million in 2004/05, although the average value of loans increased in the current year. Mortgages held by financial institutions are based on the bank's prime lending rate. In 2004/05 the average interest rate was 4.0%, down from 4.6% in 2003/04. Interest is paid on housing co-operative loan advances made during the repair period at a construction-floating rate set by CMHC. In 2004/05, the average construction-floating rate was 2.3%. On completion of the repairs, the interest rate is set by CMHC at an interest rate equal to the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75%. On a year-to-date basis, the average interest rate was 4.70%. (See table below showing the changes in interest subsidy costs).

Value of Interest Subsidy Costs

	2004/2005 ($000's)	% change over last year	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Financial institutions	3,700	(16.4)	4,427	18.6	3,734	17.0	3,191
CMHC	670	5.3	636	2.7	619	68.2	368
Total interest subsidy costs	4,370	(13.7)	5,063	16.3	4,353	22.3	3,559

Total revenues for the Reconstruction Loan Program remained relatively constant over last year. The high volume of new multi-unit construction activity resulted in a 24% increase over last year in reconstruction levies collected. A total of $12.7 million was collected in 2004/05, up from $10.2 million in 2003/04. Loan repayments were strong, resulting in a 43.2% increase over last year in loan discount recoveries. The strong revenue in-flow from other sources was negatively offset in the current year when compared to last year as a result of the cap placed on the Government of Canada's funding towards the Reconstruction Program. The total funding commitment from the Government of Canada was reached in October 2003. As a result, the total revenues remained relatively the same as last year although revenues from reconstruction levies increased 24% in the current year. (See table on the next page showing the changes in Reconstruction Loan Program revenues).

Revenues Under the Reconstruction Loan Program

	2004/2005 ($000's)	% change over last year	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Reconstruction levies	12,675	24.0	10,224	43.0	7,150	46.8	4,872
Federal contributions	0	(100.0)	4,490	(34.8)	6,890	(5.6)	7,298
Loan discount recoveries and other	5,752	43.2	4,016	37.5	2,921	66.6	1,753
Total revenues	18,427	(1.6)	18,730	10.4	16,961	21.8	13,923

Funds for repair loans advanced throughout the year on behalf of eligible homeowners continued to exceed the incoming funds to operate the Reconstruction Loan Program. This resulted in increased short-term borrowing from the Province of B.C. by the HPO throughout the year bringing the total cumulative debt obligation to $28.4 million as at March 31st, 2005, up from $25.2 million in the same period last year. The HPO will repay the bridge financing loans provided by the Province of British Columbia over time with incoming reconstruction levies collected in the ensuing years. (See the table below showing the changes in short-term borrowing obligations).

HPO Short-term Debt Due to the Province of B.C.

	2004/2005 ($000's)	% change over last year	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Balance outstanding on March 31st	28,388	12.6	25,214	0.4	25,124	1.4	24,775

In addition to its debt obligations, the HPO has a commitment to pay the subsidized interest costs on behalf of eligible homeowners for all repair loans provided by financial institutions and CMHC for housing co-operative repair loans. As demand for financial assistance continues, the commitment to pay interest costs on subsidized repair loans increases. (See the table below showing the present value of this interest cost).

Present Value (PV) of Subsidized Interest Costs

	2004/2005 ($000's)	% change over last year	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Present value of interest on approved loans on March 31st	97,300	43.1	68,000	21.4	56,800	45.5	38,500

The HPO expects a continuation of the strong housing market. It is anticipated that the existing level of revenues from reconstruction levies and license fees will be maintained as a result of the continued strong housing market. The strong housing market will also make it easier for homeowners to sell their repaired homes and repay their no-interest loans, positively impacting loan discount recoveries. Expenditures may trend upward as the demand for financial assistance continues in a rising construction cost environment. The implementation of the Futures Report may impact revenues and expenditures.

Statement of Management Responsibility

The financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements of the Homeowner Protection Office (the "Office") have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The Office's external auditors independently perform such tests of the system of internal controls, as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which comprises directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

Ken Cameron
Chief Executive Officer

Linda McKay
Manager, Finance and Administration

April 29, 2005

Auditors' Report

To the Directors of
Homeowner Protection Office

And

To the Minister of Community, Aboriginal
and Women's Services

We have audited the balance sheet of **Homeowner Protection Office** (the "Office") as at March 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 23, 2004.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
April 29, 2005

Balance Sheet

As at March 31, 2005

(in thousands of dollars)

	2005 $	2004 $
Assets		
Current assets		
Cash	362	349
Cash for reconstruction and PST programs (note 3)	1,618	1,878
Due from Province of British Columbia (note 4)	255	5
Accounts receivable	1,097	990
Prepaid expenses	43	23
Current portion of loans receivable (note 3)	2,339	1,969
	5,714	5,214
Loans receivable (note 3)	33,477	26,573
Capital assets (note 5)	91	128
	$ 39,282	$ 31,915
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	945	769
Loan loss provision (note 3)	4,180	4,239
Due to Province of British Columbia (note 6)	28,388	25,214
	33,513	30,222
Net assets		
Invested in capital assets	91	128
Unrestricted	5,678	1,565
	5,769	1,693
	$ 39,282	$ 31,915

Commitments (note 7)

Approved by the Board of Directors

_____ **Director**

_____ **Director**

Statement of Changes in Net Assets For the year ended March 31, 2005

(in thousands of dollars)

	2005			2004
	Invested in capital assets $	Unrestricted $	Total $	Total $
Balance – Beginning of year	128	1,565	1,693	(2,944)
Excess of revenues over expenditures	(103)	4,179	4,076	4,637
Investment in capital assets	66	(66)	0	0
Balance – End of year	91	5,678	5,769	1,693

Statement of Operations

For the year ended March 31, 2005

(in thousands of dollars)

	2005 $	2004 $
Revenues		
Reconstruction levies	12,675	10,224
Loan discount recoveries	5,642	3,929
Provincial contributions	3,396	2,626
License fees	3,051	2,935
Interest	143	125
Other	33	10
Federal contributions	0	4,490
	24,940	24,339
Expenditures		
Reconstruction loan grants (note 3(b))	8,208	6,616
Interest subsidy (note 3(a))	4,370	5,063
PST Relief Grants	3,271	2,501
Salaries and wages	2,224	2,128
Travel, office and other	1,012	955
Interest	672	761
Loan loss provision	295	892
Rent and utilities	208	270
Legal and professional fees	201	158
Communications and printing	147	161
Amortization	103	120
Consumer and industry education	82	7
Research studies	71	70
	20,864	19,702
Excess of revenues over expenditures	4,076	4,637

Statement of Cash Flows

For the year ended March 31, 2005

(in thousands of dollars)

	2005 $	2004 $
Cash flows from operating activities		
Cash received from		
Residential builders for reconstruction levies	12,518	10,387
Homeowners for principal-only payments on loans	11,967	7,540
Province of British Columbia for programs	3,158	2,626
Residential builders for license fees	3,101	2,844
Interest	134	127
Partners in funding research and education activities	25	8
Government of Canada for reconstruction program	0	4,865
Cash paid for		
Homeowners for reconstruction loans	(21,809)	(15,760)
Financial institutions for interest on CMHC-insured loans	(4,334)	(5,300)
Suppliers and employees	(3,827)	(3,603)
Homeowners for PST Relief Grants	(3,271)	(2,501)
Province of British Columbia for loan interest	(671)	(820)
Financial institutions for defaults on CMHC-insured loans	(345)	(550)
	(3,354)	(137)
Cash flows from investing activities		
Purchase of capital assets	(66)	(94)
Cash flows from financing activities		
Proceeds from borrowing	3,173	149
Province of British Columbia for PST program	0	(125)
	3,173	24
Decrease in cash	(247)	(207)
Cash – Beginning of year	2,227	2,434
Cash – End of year	1,980	2,227
Represented by		
Cash	362	349
Cash for reconstruction and PST programs	1,618	1,878
	$ 1,980	$ 2,227

1. General

The Homeowner Protection Office (the Office) was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the *Act*). The purposes of the Office are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

The license fees collected, including a per unit license fee for new or building envelope renovated dwelling units, fund all of the operations of the Office except for the Reconstruction and Provincial Sales Tax (PST) Relief Grant programs. The Province provides a contribution to the Office to cover the administration costs and grant payments of the PST Relief Grant Program. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision and amortization of capital assets. Actual results could differ from the estimates.

Capital assets

Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	three years
Leasehold improvements	over the lease term
All other capital assets	five years

Assets costing less than $1,000 are expensed in the year of purchase.

No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial borrowing rate for equivalent terms. Present value discounts are recorded as grant expenses. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $250 million. Accordingly, the Office's loan loss provision reflects a provision for CMHC-insured loans.

Loan loss provision

The loan loss provision consists of an amount that is established for specific impaired loans and a non-specific allowance to provide for losses inherent in the loan portfolio for which a specific allowance cannot yet be determined. The loan loss provision is made to reduce the carrying amount of individual loans recorded in the amounts of the Office to their estimate realizable amount, and also provides for estimated loan losses incurred on CMHC-insured loans.

Financial dependence

The Office is financially dependent on the Province of British Columbia for its financing and ability to borrow funds for operations (note 6).

Federal and provincial taxes

The Office is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

3. Reconstruction program

Under the *Act*, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program. Accordingly, cash balances for this program are segregated and shown separately on the balance sheet.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay or obtain conventional financing for repairs to their homes with premature building envelope failure. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the Office approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is included in the interest subsidy in the Statement of Operations.

ii) Housing Co-operatives

Under an agreement with CMHC, the Office approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC which is also the first mortgage lender. The housing co-operative makes monthly principal-only payments to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At the IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75 percent per annum, compounded semi-annually not in advance. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in the interest subsidy in the Statement of Operations.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear in the Balance Sheet of the Office.

b) No-interest loans through the Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The net present value of these loans is included in loans receivable in the Balance Sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the Statements of Operations.

c) Deferred payment loans through the Office

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the Office may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner lives in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan then the shortfall will be forgiven. The net present value of these deferred payment loans is included in loans receivable in the Balance Sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the Statements of Operations.

d) The Office approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet March 31, 2005 ($000's)	Financial Assistance Reported on the Balance Sheet March 31, 2004 ($000's)
Subsidized interest loans				
Homeowners (note 3a(i))	7,703	216,674	-	-
Housing co-operatives (note 3a(ii))	51	162,508	-	-
No-interest loans (note 3(b))	1,577	55,474	55,474	44,632
Deferred payment loans (note 3(c))	1,377	42,828	42,828	33,408
Total loans approved	10,708	477,484	98,302	78,040
Less:				
Loans approved but not yet issued				
Homeowners		(21,729)	(11,523)	(13,079)
Housing co-operatives		(143,106)	-	-
Present value discount		(23,339)	(23,339)	(20,733)
Loan loss provision		(4,180)	-	-
Loan write-offs		(2,927)	(256)	(246)
Loan repayments		(129,326)	(27,368)	(15,440)
Loans receivable		152,877	35,816	28,542
Less: Current portion			(2,339)	(1,969)
Loans receivable			33,477	26,573

e) The revenues and expenditures of the Reconstruction Loan Program were as follows:

	2005 ($000's)	2004 ($000's)
Revenues		
Reconstruction levies	12,675	10,224
Loan discount recoveries	5,642	3,929
Interest	110	87
Federal contributions	0	4,490
	18,427	18,730
Expenditures		
Reconstruction loan grants	8,208	6,616
Interest subsidy	4,370	5,063
Administrative costs	993	993
Interest	644	732
Loan loss provision	295	892
	14,510	14,296
Excess of program revenues over expenditures	3,917	4,434

The present value of the interest to be paid in the future by the Office on the subsidized interest loans approved is $97.3 million (2004: $68 million).

Loans were approved, but not issued in instances where owners, strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs.

The 51 housing co-operatives contain 2,893 homes.

4. Due from the Province of British Columbia

The balance due from the Province of British Columbia (the Province) includes reimbursement of PST Relief Grant payments made on behalf of the Province and interest earned on the HPO's balance of its overnight bank deposits in the Province's offset interest program. Under agreement between the Province and the HPO, the Province reimburses the Office on a monthly basis for all PST Relief Grant payments made to eligible homeowners. The Province's offset interest program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75% approximately one month after the interest is earned.

	March 31, 2005 ($000's)	March 31, 2004 ($000's)
PST Relief Grant reimbursement	238	0
Offset interest earned	15	5
Miscellaneous	2	0
	255	5

5. Capital Assets

	Cost ($000's)	Accumulated amortization ($000's)	2005 Net ($000's)	2004 Net ($000's)
Office furniture and equipment	283	(276)	7	17
Computer hardware	284	(226)	58	55
Leasehold improvements	173	(173)	0	26
Computer software	175	(161)	14	11
Vehicles	40	(28)	12	19
	955	(864)	91	128

6. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of $37 million.

Of the $28.4 million borrowed by the Office, $6.5 million was due on April 13, 2005 with interest accrued at 2.35%, $6.4 million is due on May 3, 2005 with interest accrued at 2.39%, $6 million is due on May 13, 2005 with interest accrued at 2.37% and $9.5 million is due on June 16, 2005 with interest accrued at 2.45%.

7. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender. The actual interest subsidy payment amounts made and the present value of interest amounts to be paid in the future are shown in note 3.

During the year, the Office entered into a new operating lease for its office space, which expires on January 31, 2011. The Office has minimum rental obligations under operating leases for office space as follows:

Year ending March 31	($000's)
2006	197
2007	200
2008	203
2009	207
2010	210
	1,017

8. Related party transactions

In the normal course of operations the Office acquires goods and services from the Province and certain Crown corporations, under prevailing trade terms.

9. Financial Instruments

The financial instruments of the Office consist of cash, balances due to and from the Province of British Columbia, accounts receivable, loans receivable, and accounts payable. The fair values of balance sheet items, which are highly liquid or short-term in nature, approximate their carrying value. The fair value of loans receivable and amounts due to and from the Province of British Columbia are not practicable to determine.

10. Employee benefit plans

The Office provides a defined benefit pension plan and other post-retirement benefits to all of its employees.

The Office contributes to the Public Service Pension Plan (the plan), a jointly trusteed multi-employer defined benefit pension plan, to which employees and employers of the public service contribute. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The plan has about 52,000 active plan members and approximately 30,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The latest valuation as at March 31, 2002, indicated a $546 million funding surplus for basic pension benefits. The next valuation will be as at March 31, 2005, with results available in 2006. The actuary does not attribute portions of the surplus to individual employers. The Homeowner Protection Office paid $124,600 for employer contributions to the plan in fiscal 2005 (2004: $123,000).

Under the terms of their employment, employees of the Office are also entitled to termination and other post retirement benefits that include health care benefits which are provided under public service benefit plans.

Defined contribution plan accounting is applied to these benefit plans as the Office has insufficient information to apply defined plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

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